

**CITY COUNCIL OF THE CITY OF SAN DIEGO  
SUPPLEMENTAL DOCKET NUMBER 4  
FOR THE REGULAR MEETING OF  
TUESDAY, MAY 10, 2005 AT 10:00 A.M.  
CITY ADMINISTRATION BUILDING  
COUNCIL CHAMBERS – 12<sup>TH</sup> FLOOR  
202 “C” STREET  
SAN DIEGO, CA 92101**

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**ADOPTION AGENDA, DISCUSSION, OTHER LEGISLATIVE ITEMS**

**RESOLUTIONS:**

ITEM-S504: Acceptance of Audit Committee’s Status Report; First Amendment to Agreement with Kroll, Inc. for Services Related to the Audit of the City’s Comprehensive Annual Financial Report (CAFR); and New Agreement with Willkie, Farr & Gallagher to Provide Independent Legal Counsel to Kroll and the Audit Committee On These Matters.

**CITY MANAGER’S RECOMMENDATION:**

Adopt the following resolutions:

Subitem-A:

In the matter of accepting the Audit Committee’s Status Report.

Subitem-B: (R-2005- )

Authorizing a first amendment to the agreement with Kroll Inc. in the amount of \$1,500,000 for continued provision of investigative services in their role as the City’s Audit Committee, and consulting assistance in assessing internal control deficiencies affecting matters discussed in the Vinson & Elkins and City Attorney investigation reports, and directing the City Attorney to prepare applicable resolution.

Subitem-C: (R-2005- )

Authorizing an agreement with Willkie, Farr, & Gallagher LLP in the amount of \$500,000 for provision of independent legal counsel to the City Audit Committee and Kroll in connection with the above matters, and directing the City Attorney to prepare applicable resolution.

ADOPTION AGENDA, DISCUSSION, OTHER LEGISLATIVE ITEMS (Continued)

## RESOLUTIONS: (Continued)

ITEM-S504: (Continued)

**CITY MANAGER SUPPORTING INFORMATION:**

In February of 2005, the City of San Diego ("City") entered into an agreement with Kroll, Inc. ("Kroll") to receive, review and evaluate the findings of the investigations performed by Vinson & Elkins ("V&E") and the City Attorney, and to provide consulting assistance in assessing internal control deficiencies affecting matters discussed in the investigation reports (see attached agreement with Kroll). The original agreement was for a not-to-exceed amount of \$250,000.

The scope of Kroll's engagement, as memorialized in the original agreement, is two-phased, the first phase being to serve as an Independent Investigator for matters relating to the unfunded liability of the SDCERS and for errors discovered in the footnotes of the City's audited financial statements. This phase includes working with KPMG to understand their concerns and identify a satisfactory work program to assist them in obtaining the necessary evidence and documentation required by applicable accounting, auditing and professional services. This phase also includes review and evaluation of the investigation reports issues by V&E and the City Attorney.

The second phase includes consultation with City personnel to establish internal controls that, if implemented and properly operated by the City, could provide reasonable assurance that the transactions identified in the reports in Phase One are properly reported and disclosed in the City's financial statements. This work is to be coordinated with the City Auditor and Comptroller, the internal audit department manager, and the City's outside independent auditors as to the scope and nature of internal controls that the City would need to assess, document, implement, and test.

By this action, the agreement with Kroll will be increased by \$1,500,000, for a total not-to-exceed amount of \$1,750,000.

Kroll will also be utilizing independent legal counsel from the firm of Willkie, Farr & Gallagher LLP ("Willkie, Farr"). Willkie, Farr's role will be to provide counsel and assistance to Kroll and the Audit Committee in connection with the independent investigation into SDCERS finances and disclosure, as well as with other matters that, in the judgment of the Audit Committee, may require inquiry or investigation (see attached agreement with Willkie, Farr). Willkie, Farr will report exclusively to the Audit Committee, serving with complete independence from the Mayor and City Council, the City, and the City's departments, agencies and elected officials.

Funding for the retention of Willkie, Farr is being requested in the amount of \$500,000.

Irvine

Aud. Cert. 2500975.